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The Medicaid Financial Highlight report reviews current issues and trends in Medicaid financial operations. The Budget Branch of the Division of State Agency Financial Management prepared this highlight. For more information on this report call Dave McNally on FTS 987-1398 or John Lemieux on FTS 934-6876.

ANALYSIS OF TITLE XIX FEDERAL SHARE THIRD PARTY LIABILITY COLLECTIONS FISCAL YEARS 1980 THROUGH 1984

Overview

This Medicaid Financial Highlight report presents an analysis of Federal share third party liability (TPL) collections made under title XIX for fiscal years (FYs) 1980 through 1984. Under Section 1902(a)(25) of the Social Security Act, Medicaid State Agencies are required to identify and pursue for recovery Medicaid claims for which a third party insurer may be liable. As defined in the Code of Federal Regulations, Part 42, 433.136, a third party is "any individual, entity or program that is or may be liable to pay all or part of the medical cost of injury, disease, or disability of an applicant or recipient". Sources of TPL under Medicaid include: health insurance policies; Federal and State health insurance programs (which include Medicare); auxiliary liability and casualty insurance; and other sources of medical liability -- largely associated with obligatory support of medical care by parents and guardians.

Processing system approaches for identification and recovery of TPL resources are of two basic types -- cost-avoidance and benefit-recovery. A cost-avoidance system attempts to identify possible sources of TPL and recover liabilities before payment is made to the provider. In benefit-recovery systems (often referred to as "pay-and-chase"), claims are unchallenged as to possible TPL coverage prior to payment. Claims are reviewed after reimbursement to the provider for possible third party resource liability and collection attempts are then initiated. Most States have adopted TPL review and recovery systems which combine the two approaches.

Congressional and public concerns regarding the escalating costs of the Medicaid program have prompted HCFA to increasingly examine measures which can be taken to reduce costs and improve the administration of the program. Strengthening the States' TPL identification and recovery processes is a top priority. The purpose of this report is not to address TPL enhancement issues, but to provide comparative data on recent TPL collection trends. A discussion of recent TPL legislation and program initiatives has been included for your information on pages 2 and 3 of this report and precedes the TPL collection analysis.

The data contained in this report for FYs 1980 through 1984 were obtained from form HCFA-64.9a, Quarterly Schedule of Third Party Liability Collections for the Medical Assistance Program. Chart 1 presents the Federal share of TPL collections for FYs 1980 through 1984 including and excluding collections from Medicare resources, while Chart 2 displays TPL collections for the same time period by type of resource. Table 1 provides a ranking of the top 20 TPL collection States for FY 1984 and displays the State's TPL collections as a percentage of its Federal medical assistance expenditures. Information on the amount of Medicaid funds diverted or collected prior to claims payment (i.e., cost-avoidance), is not presented in this report for FYs 1980 through 1984.

Recent TPL Legislation and Program Initiatives

The Health Care Financing Administration (HCFA) has established several initiatives which are intended to improve State TPL operations and maximize savings to title XIX.

1. HCFA has negotiated an agreement between the Social Security Administration (SSA) and eighteen 1634 Medicaid State agencies (i.e., States in which SSA makes the Medicaid eligibility determination concurrently with the Supplemental Security Income (SSI) eligibility determination), whereby SSA field office personnel collect detailed health insurance information from SSI/Medicaid applicants during SSI intake operations. The health insurance information is provided to Medicaid State agencies for use in their TPL recovery/cost-avoidance systems. The goal is to increase Medicaid TPL savings by utilizing the health insurance resources of SSI recipients rather than Medicaid benefits. Regulations are currently being considered which will mandate the collection of health resource information for all of the thirty-two 1634 States.

2. Section 2637 of the Deficit Reduction Act of 1984 (P.L. 98-369) provides for mandatory assignment of rights of payment for medical support and other medical care owed to recipients. Effective October 1, 1984, assignment of rights of payment by Medicaid recipients became a condition of Medicaid eligibility. HCFA has been assisting the States in implementing this requirement. HCFA and SSA are also working together to develop a procedure that will accommodate SSA in obtaining assignment for SSI/Medicaid applicants during initial SSI intake operations.

3. Section 16 of the Child Support Enforcement Amendments of 1984 (P.L. 98-378) requires States to seek the inclusion of medical support as part of child support orders whenever health care coverage is available to the absent parent at a reasonable cost. Additional TPL Federal savings are expected through promulgation of regulations provided by Section 16.

4. Changes to current TPL regulations are currently being promulgated by HCFA which will:

- Broaden the scope of services for which a State must collect from third parties the cost of medical assistance furnished to Medicaid recipients;
- Require State agencies to employ the cost-avoidance method of payment of claims in circumstances in which the agency has established the probable existence of TPL at the time the claim is filed, unless a waiver is requested by the State within a certain time and is approved by HCFA; and
- Revise current TPL regulations to conform to statutory provisions of Public Laws 98-369 and 98-378 as previously mentioned.

5. A TPL best-practices guide has been developed through the joint efforts of HCFA and Medicaid State agencies which is designed to provide general information to the States concerning various TPL practices. This guide is expected to encourage State TPL staffs to communicate with each other and share ideas regarding valuable TPL practices. The first edition of the guide was disseminated to the States in March 1985.

6. Finally, in FY 1985, HCFA will also initiate a targeted audit approach to improve State TPL operations. This approach focuses on identifying those States with initial indicators of poor TPL performance and high dollar vulnerabilities, and then performing targeted audits to document program disallowances. These disallowances would be based on error rates developed from the audit sample and projected to the universe from which the sample was drawn. Initial efforts in FY 1985 will alert all States to increased TPL oversight and will allow development of additional TPL program data to assist in targeting audits in FY 1986, if required.

Chart 1

Chart 1 is a graphic presentation of Federal share TPL collections reported on Form HCFA-64.9a for FYs 1980 through 1984 (including and excluding collections from Medicare resources).

- Collections from TPL resources including Medicare rose $15 million, 21 percent, from FY 1980 to FY 1984.

- Over the past five years, collections from Medicare resources have represented an average of 19 percent of total TPL collections, although the proportion for FY 1984 was only 13 percent.

- The most dramatic increase between FYs ($15 million, 21 percent), occurred from FY 1981 to FY 1982, primarily because the States increased their collection reporting efforts to take advantage of the 1 percent TPL offset allowed against expenditure reductions imposed under Section 1903 (s) of the Social Security Act.

- Collections from TPL resources excluding Medicare rose $22 million, 45 percent, from FY 1980 to FY 1984. This increase mirrors the rise in medical assistance payment expenditures for the same time period (47 percent).

- Although TPL collections (excluding Medicare) significantly rose between FYs 1980 and 1981 from $50 million to $60 million, approximately 47 percent of the increase was attributable to the growth of 4th quarter FY 1981 TPL collections over 4th quarter FY 1980. The 4th quarter FY 1981 TPL collections were used to determine TPL offset qualification under Section 1903 (s) for the 1st quarter of FY 1982.

CHART 1

MEDICAID THIRD PARTY LIABILITY COLLECTIONS - FEDERAL SHARE

INCLUDING/EXCLUDING COLLECTIONS FROM MEDICARE RESOURCES

FISCAL YEARS 1980 - 1984

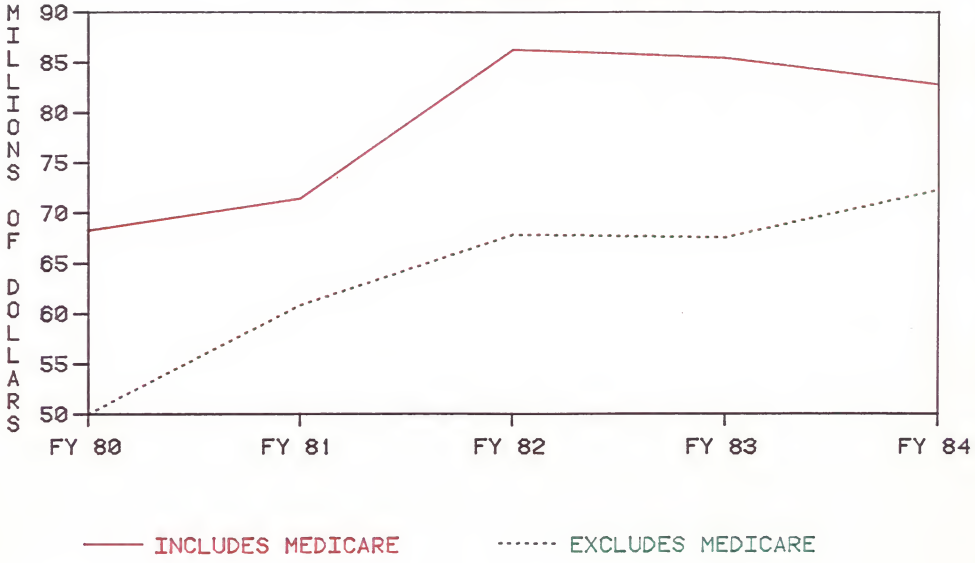

Chart 2

Chart 2 displays the Federal share of TPL collections for FYs 1980 through 1984 provided from three principal resources: (1) health insurance (which includes private, Federal, and State health insurance programs); (2) liability/casualty insurance; and (3) resources associated with the legal responsibility of a family member to provide health care for a dependent (commonly referred to as reimbursements from responsible relatives).

- Collections from health insurance resources represent the largest portion of TPL collections averaging 52 percent annually for FYs 1980 through 1984.

- Collections from liability/casualty insurance in FYs 1983 and 1984 averaged 29 percent of total TPL collections. The proportion in FYs 1980 through 1982 averaged only 21 percent.

- Reimbursements from responsible relatives in proportion to total TPL collections declined from an annual average of 28 percent for FYs 1980 through 1982, to 19 percent for FYs 1983 through 1984.

CHART 2

MEDICAID THIRD PARTY LIABILITY COLLECTIONS BY RESOURCE

(FEDERAL SHARE)

FISCAL YEARS 1980 - 1984

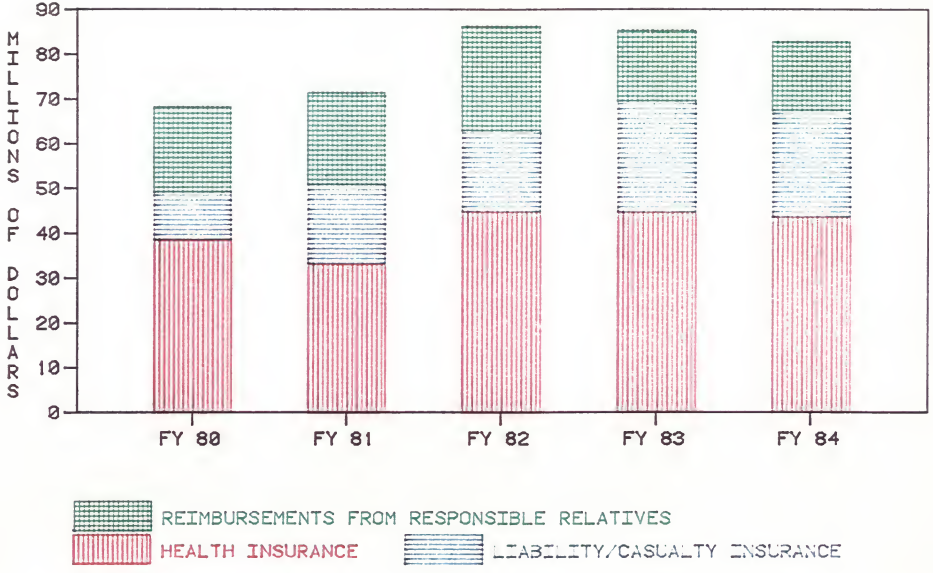

TABLE 1

Third Party Liability Collections - Fiscal Year 1984
Top 20 TPL Collection States
State's TPL as Percent of National Total and of State's Total Expenditures
(Federal Share)

States	* TPL Collections	State's TPL as % of National	TPL as % of State's Total Expenditures
New York	$ 16,825,502	20.3	0.5
California	10,618,175	12.8	0.6
Minnesota	6,225,733	7.5	1.3
Michigan	5,893,421	7.1	0.7
Illinois	5,637,688	6.8	0.6
Massachusetts	3,570,903	4.3	0.5
Florida	2,762,149	3.3	0.6
North Carolina	2,682,331	3.2	0.6
Georgia	2,639,459	3.2	0.6
Pennsylvania	2,403,427	2.9	0.2
Wisconsin	2,137,654	2.6	0.4
Ohio	1,910,906	2.3	0.2
Maryland	1,799,836	2.2	0.6
New Jersey	1,336,182	1.6	0.3
Indiana	1,251,745	1.5	0.3
Mississippi	1,197,379	1.4	0.5
Louisiana	1,142,134	1.4	0.3
Kentucky	1,041,890	1.3	0.3
Utah	933,808	1.1	1.0
Oklahoma	848,606	1.0	0.4
Top 20 TPL Collection States	$ 72,858,928	87.8	0.5
All Other States	9,911,149	12.2	0.2
Total	$ 82,770,077	100.0	0.4

* Includes Federal Share Reported TPL Collections from:
Health Insurance (Medicare Included)
Liability and Casualty Insurance
Reimbursements from Responsible Relatives

Table 1*

Table 1 provides a ranking of the top 20 TPL collection States for FY 1984 by the State's percentage of TPL collections to the nation. Each State's TPL collections as a percentage of its Federal medical assistance expenditures is also depicted.

- The top 20 TPL collection States represent 87.8 percent of all reported TPL collections.

- The top five collection States - New York, California, Minnesota, Michigan, and Illinois account for 54.5 percent of all TPL collections. New York and California combined represent one-third of the nation's total.

- Collections from TPL for the nation were 0.4 percent of medical assistance expenditures in FY 1984. Although not presented in this table, the proportion of TPL collections to expenditures has remained relatively constant from 0.4 percent to 0.5 percent since FY 1980.

- Minnesota and Utah were the only States whose TPL collections equaled or exceeded 1.0 percent of expenditures in FY 1984. Both States rely heavily on "pay-and-chase" TPL recovery systems, which explains the higher TPL collection proportion.

- Texas is noticeably absent from the top 20 collection States because the State's TPL review and recovery system is designed toward cost-avoidance.

* Diverted funds/cost-avoidance information is not included in the table. An evaluation of the effectiveness of State TPL review and recovery programs cannot be determined solely from TPL collection data.

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